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Agriculture Subcommittee on
Department Operations, Oversight, Dairy, Nutrition, and Forestry

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Mr. Chairman, and members of the Committee, thank you for the opportunity to testify here today. My name is John Jeter, and I am the CEO of Hilmar Cheese Company.

Hilmar is a unique company. We are a producer owned, private company that buys over 10 percent of all the milk in California. We are now in the process of building a new cheese processing plant in Dalhart, Texas. This new cheese and whey protein processing plant in Texas will be the company's first processing plant outside of its Hilmar, California facility and corporate headquarters.

We were founded to increase the prices producers receive for their milk, and we have been very successful, despite federal regulations and programs that were originally intended to help producers but actually stand in the way and handicap the whole of the US dairy industry.

The next Farm Bill provides Congress with a tremendous opportunity to bring more cohesion to our fractured dairy programs and to recognize and rectify the unintended consequences of the well-intentioned but flawed programs in place today.

Let me start by offering one example of such a well-intended program that is actually retarding natural growth and progress in the industry: the Milk Income Loss Contract program – otherwise known as M-I-L-C. It is symptomatic of federal dairy policy today and I am sure the Committee has heard differing opinions on the program. I am here to report that I believe the program is counterproductive, expensive, and it is unnecessary.

The MILC program is counterproductive because it works at odds with the dairy price support program. The price support program was once intended to clear the market of excess production, but now it simply stimulates excess production and keeps prices low. The MILC payment compounds the market distortions by subsidizing the excess production and further lowering overall price levels, which is detrimental to all in dairy. These two programs are simply incompatible.

USDA's 2004 analyses of the programs confirm this determination. USDA's Deputy Chief Economist Dr. Joe Glauber explained it this way at a recent Senate hearing on dairy policy - he said the MILC programs works "at cross purposes with the underlying market price support program if you're creating incentives to produce more milk, well then that can potentially cause a price decline." He explained when this happens, "the government steps in and purchases product." He went on to testify the current system creates, "stock piles that end up growing quite large", "potential product imbalance" and distortion in the markets.

On top of all this, the MILC program is also expensive. It was meant to be a temporary assistance payment to dairymen; a transition program from the failed Northeast Dairy Compact, conceived in 2002 during the farm bill debate, but by the time it was implemented it was extended retroactively to 2001. Based on its March 2004 estimate, the Congressional Budget Office projected that the cumulative cost of the MILC program over its expected four-year life was going to be approximately $3.8 billion. This is significantly higher than estimates offered in 2002 during the farm bill debate, when the CBO estimated total direct payments of only $963 million over the life of the program.

MILC was supposed to sunset in October 2005, but Congress extended this program through 2007. Ironically, it was the budget savings bill, the measure to cut federal spending, which extended MILC at a cost of another $1 billion, at least.

MILC is unnecessary and counterproductive. There exists another program designed to prop up farm gate prices of milk - the federal dairy price support program. In the next farm bill, we need to resolve which of these programs, if any, to keep and which to get rid of. Neither are ultimately truly helping producers, processors, or consumers. In fact, by the time the MILC payments kick-in, after the price support program, taxpayers have paid for the same milk twice.

While as I said at the outset, Hilmar is dedicated to delivering better prices to dairy producers, we do that through adding value to their milk and supplying the market with what consumers want. That is how Hilmar is different, we do not expect the government to help us meet expenses or guarantee a profit. That is not a formula for success in our free enterprise system.

Our focus is on making world class cheese and value-added whey products, so to me the current two programs we have now in dairy do not make sense. Why are we paying producers to make a product i.e. non-fat dry milk that is not being demanded by the marketplace but that has the best return when it is sold to USDA to be stored in a warehouse?

The dairy price support program may be guaranteeing a price to producers, but it is not adding value to their milk, nor is it serving consumers who ultimately determine the value of milk and dairy products. What the dairy price support program does accomplish is to stand in the way of innovation in products and in the way of investment in technology.

Fundamentally, what federal dairy policy does today is ignore the law of supply and demand. It focuses in on getting more money to the producer … that in most cases means more production. A critical missing point in our policy discussions is: where will this milk go?

In the next Farm Bill I would urge you ask a simple question. Is it really sustainable to subsidize production with the MILC program … and then take that milk off the market through the dairy price support program and keep it in government warehouses? As far as I can tell, the “demand” for non-fat dry milk by federal warehouses is probably pretty limited.

On the other hand, the demand from the market for cheese, new and innovative consumer demanded, value-added dairy products, domestically and globally has barely been tapped in any real and significant way. In addition to US consumer demand for new, interesting and quality products, there is a demand for specialty protein products from food manufacturers and there is a growing export demand. Consider this: the US exported 7 percent of its production last year … a big increase from a few years ago when we were pretty much stuck at four percent … but compare that to other commodities, which export 20, 30, or 40 percent of their production. Our industry needs to look at the shores of Asia, consumers in Europe and markets in South America, not the caves of USDA or the subsidy payments of MILC to ensure our prosperity, stability and future.

One-step in the right direction for federal dairy policy beyond rectifying the two overlapping subsidy programs is to expand the ability to forward contract to those in federally regulated marketing orders rather than limiting it to co-ops and let producers and processors work together to develop new markets and new ways to bring value to milk. It's a simple matter of fairness.

In closing, Mr. Chairman, US dairy farmers and processors can succeed in a free market. We just need to remove some impediments to change and to innovate by looking down the supply chain at ways to add value to milk instead of ignoring these market signals in favor of government subsidies. I appreciate the time the Committee has taken to come to California to hear our views and to provide us with encouragement and support of our effort to sell high quality dairy products made from US milk to consumers here and abroad.

Thank you.